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SUBJECT: Mexico Economic Weekly - September 25

11. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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13. (U) NEW REGULATIONS OPEN DOOR TO SOME PRIVATE SECTOR INVESTMENT  
IN DOWNSTREAM ACTIVITIES: As part of the implementation of the

2008 Energy Reform, the Secretariat of Energy on September 22 published new regulations to update the legal framework governing Mexico's oil industry. Under the new regulations, the private sector (domestic and international) may invest in the storage, distribution, and pipeline transportation of oil and fuels (i.e., gasoline, diesel, etc.) with the prior authorization of the Comisison Reguladora de Energia (Energy Regulatory Commission). The Regulations also eliminate reference to "refining activities" being limited only to PEMEX, therefore arguably opening the door to the possible participation of private investors in certain refining activities not specifically reserved by law to PEMEX. Once the terms of this opening are defined by the Ministry of Energy, the degree to which the new regulations allow private investment in refining will be more clear. (Mexico City)

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TRADE AND INVESTMENT  
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¶4. (U) TECHINT TO INVEST \$800 MILLION U.S. IN NUEVO LEON: Attending a signing ceremony in recognition of his multinational's \$3 million U.S. endowment to the Technological Institute of Monterrey (ITESM), President of Italo-Argentine conglomerate Techint Paolo Rocco announced plans to invest \$800 million U.S. in subsidiary Ternium's flat steel plant in Pesqueria, Neuvo Leon. This investment will double the plant's capacity. Rocco also announced plans to construct a steel tube plant for subsidiary Tenaris in Veracruz by the end of 2010. Both investments are part of a five year investment plan of approximately \$5 billion U.S. world-wide. According to Rocca, the decision to invest despite a loss in Techint's income reaching 67% in the third quarter, was made based

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on the prediction that oil would stabilize at \$60-\$70 U.S. per barrel, and that steel inventories in the U.S. would be very low by 2010, stimulating significant demand for Techint products. (Monterrey)

¶5. (U) EMBASSY SPONSORS IPR TRAINING FOR MEXICAN JUDGES: Embassy Mexico, together with the U.S. Patent and Trademark Office and El Colegio Nacional de Magistrados de Circuito y Jueces de Distrito del Poder Judicial de la Federacisn, is holding a four-day workshop on how to adjudicate IPR cases in Mexico City from September 21-24, ¶2009. The seminar is financed by USPTO grant money from State/INL. 26 Mexican civil and criminal judges and magistrates are participating with U.S. District Court Judges Ronald Lew, Bernice Donald, and James Rosenbaum directing discussions. The workshop focuses on promoting greater judicial enforcement of intellectual property law in Mexico as well as providing the participants with the necessary understanding and tools to do so. Over four days participants will discuss copyright, patent, and trademark case studies, and will gain fresh insights as to how to handle their IPR caseload. The workshop is part of a holistic approach to train Mexico's customs officials, public officials, prosecutors, and judicial officials, thereby fostering greater IP protection and enforcement in Mexico. (Mexico City)

¶6. (U) MERCHANTS IN MCALLEN FEEL THE PINCH: According to Luis Cantu, Vice President of International Relations of the McAllen Chamber of Commerce, merchants in McAllen have seen a fall in sales of 10% since January of this year. Cantu attributed this fall to a decrease in demand from Mexican clients who cross the border to shop McAllen. Cantu predicted an improvement, though not a full recovery in sales, within the next three months. (Monterrey)

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ECONOMY AND FINANCE  
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¶7. (U) BAJA CALIFORNIA MUNICIPALITIES FACE FISCAL CRISES: All five municipalities in the state are running severe fiscal deficits, according to the Baja California chapter of the Colegio de Economistas. Like most municipalities in Mexico, the city administrations are dependent on the federal government for 20-30% of their revenue and have seen these transfers fall in the last six

months. Efforts to cut payrolls have been stymied, particularly in Tijuana, by public sector unions. However, Baja city administrations have made efforts to look for alternative funding. For example the North American Development Bank is financing Tijuana's street re-paving program. According to Jose Contreras, Vice President of the Colegio, municipal governments have been more adept at dealing with the global economic crisis than the federal government, spending more of their limited resources on infrastructure projects that bring long term economic growth on the one hand while attempting to cut administrative costs on the other. (Tijuana)

18. (U) DEMAND TO OUTSTRIP FINANCING IN JALISCO: The president of the National Chamber of Housing Development and Promotion (Canadevi) announced that the demand for housing in Jalisco will not be met in 2009. The shortage is not the result of increased home-buying, but rather a credit shortage and a lack of affordable housing. Government agencies are financing over 75% of mortgages, with the National Fund for Workers' Housing (Infonovit) covering most of those. Private financial institutions have only doled out 31% of their expected demand for the year and are likely to end the year having issued only half of the mortgages dispersed in 2008. In addition, almost 70% of Infonavit borrowers require affordable housing from government tracts of land that the housing agency authorizes. However, the housing Infonavit offers frequently lacks basic services that the buyer is expected to develop and is located in areas with poor infrastructure. Once those services are developed the housing prices shoot up out of the borrowers' approved price range and the authorized credit cannot be utilized. Adding to the problem, the construction sector is down almost 9% on the year. The shortage highlights a market failure and an inability of the government institutions to fill the gap. With the budget of the state government's housing subsidy program "Esta es tu casa" likely to decrease next year prospects are dimming for working class homebuyers in Jalisco. (Guadalajara)

19. (U) EMPLOYMENT INCREASING IN NUEVO LEON'S CONSTRUCTION SECTOR: According to statistics provided by IMSS, while formal employment in Nuevo Leon's construction industry has not recovered to last year's level, it has grown by 4.5% over the last quarter, registering 99,

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679 workers at the end of August. Economist Abel Hibert credits this growth to an average increase of 30% spending among federal, state, and municipal governments. Hibert noted growing deficits and falling oil revenues, and expressed skepticism that such spending could be maintained over the next year. (Monterrey)

10. (U) DEPARTING GOVERNOR INCREASES DEBT: With less than two weeks remaining in his term, Governor of Nuevo Leon Jose Natividad Gonzalez Paras contracted another \$373.5 million USD of public debt, bringing Nuevo Leon's total - attributed directly to the State, and to decentralized entities such as Water and Drainage, and the Institute of Vehicular Control - to \$1.6 billion USD. This represents a 74.2% increase in the public debt since Governor Gonzalez took office in 2003. According to Nuevo Leon's Treasurer Ruben Martinez, this new debt will be paid back over the course of 20 years, and the resulting funds will be used to stabilize state finances and refinance approximately \$156.9 million USD of outstanding debt. Nuevo Leon state revenues have fallen, Ruben explained, by \$44.85 million USD this year alone, and the central government had provided the state \$186.9 million USD less in disbursements than it had the previous year. The new debt represents half of Nuevo Leon's annual budgeted revenues, the highest debt levels as a percentage of revenues among all Mexican states and the Federal District as well. (Monterrey)

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INFRASTRUCTURE  
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11. (U) PUNTA COLONET AND MAYAN RIVIERA BACK ON: The Under Secretary of Transportation Humberto Trevino said September 20 that the government's large infrastructure projects, Punta Colonet Port and the Riviera Maya airport will not be postponed again and added that the bidding process will move forward. According to Trevino,

bidding for the Mayan Riviera project will be launched in November. Secretary Molinar's team will meet with him to discuss the results of conversations held with the interested companies for Punta Colonet, and that project could be re-launched within weeks. Trevino explained that Punta Colonet will be exclusively a private project. Thus, the government will provide neither financing nor guarantees. (Mexico City)

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